

Treasurer sees sense on non-concessional super cap

15 September 2016

The Treasurer's decision to scrap the \$500,000 lifetime non-concessional cap is sensible.

In our view it was never necessary in the first place.

If an upper limit is set on tax-free superannuation accounts it shouldn't matter how and when the limit is reached.

So the new, reduced non-concessional cap of \$100,000 a year is also unnecessary. If an overall account balance cap is set then annual concessional contribution limits are not needed. Conversely, with contribution limits in place (the new cap on non-concessional contributions and the reduced concessional cap) there's no need to have an overall \$1.6 million retirement account balance cap at all. Having both contribution and balance caps adds unnecessary complexity to a system for which simplicity is one of the government's stated objectives.

However, scrapping the retrospective lifetime \$500,000 cap on non-concessional contributions will remove a headache for many people whose retirement savings plans were disrupted by the budget announcement. They will now be able to plan ahead with more confidence.

It is unfortunate that it comes at the cost of withdrawing the budget measures to harmonise contribution rules for people aged 65 to 74, including getting rid of the work test.

The Treasurer's decision comes after widespread expressions of concern from self-managed fund members, many of whom have been in touch with Coalition members and senators, and representations from SMSF Owners and others.

The scrapping of a major plank of the superannuation changes announced in the May budget confirms our view that the changes were not well thought through at the time. They were driven by revenue needs rather than what is best for the superannuation system.

There are still many unanswered questions about how the \$1.6 million cap will work in practice and it may be several weeks before the Government releases further draft legislation that will hopefully answer such questions.

If a cap on tax-free account balances is thought necessary at all, the limit should be doubled.

Research undertaken by Professor Ron Bewley, former head of the School of Economics at UNSW, concludes that an upper limit of \$3.2m is necessary to provide an income sufficient to last throughout retirement. See:

[https://www.smsfoa.org.au/images/expert_advice/160609 Dr Ron Bewley So how much should the superannuation cap be.pdf](https://www.smsfoa.org.au/images/expert_advice/160609_Dr_Ron_Bewley_So_how_much_should_the_superannuation_cap_be.pdf)

Changes to superannuation have far-reaching and long lasting effects on people and should only be contemplated after extensive consultation. The truncation of the Tax White Paper process, the rushed consultation on the objective of superannuation, the unexpected budget changes and this latest announcement fell short of the principles of good policy making on superannuation which for most Australians is their most significant investment outside the family home and the key to a comfortable retirement.

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